

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of First State Bank of Emmons, Emmons, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an evaluation conducted as of October 30, 1995. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the evaluation.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its evaluation of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

BASIS FOR THE RATING

The assessment of the institution's record takes into account its financial capacity and size, legal impediments, and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Discussion of Institution's Performance

Institution's Rating:

This institution is rated "Satisfactory record of meeting community credit needs" based on the findings noted below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The bank effectively ascertains the credit needs of residents in its delineated community. The bank relies on day-to-day contact between members of its community and the bank's directors, officers, and staff to ascertain the credit needs in its delineated community.

Bank directors, officers, and staff are actively involved in many community service and development organizations. The chairman of the board is involved in the Kiwanis Club; serves on the board of regents at Waldorf College, Forest City, Iowa; and is very active in the Freeborn County Chamber of Commerce and Jobs, Inc., Albert Lea, Minnesota. The bank's president participates in the Emmons Commercial Club and the Emmons Lutheran Church. The bank's vice president is a board member of the Lake Mills (Iowa) Development Group. Its cashier and compliance officer serves on the Emmons Commercial Club. She is also an officer of the Emmons Area Women of Today organization and the American Legion Auxiliary.

The bank's outside directors also are active in ascertaining community credit needs. One director is active with the Winnebago/Worth County Development Corporation, and serves on the boards of the Lake Mills Chamber of Commerce and Lake Mills Development Group. Another director is a member of Jobs, Inc., Albert Lea.

This active community involvement provides the bank's directors and management with valuable feedback on the bank's performance and helps to identify needed products and services. As a result of its ascertainment efforts, the bank introduced a new Individual Retirement Account product. In addition, in early 1994, the bank opened a loan production office in Lake Mills. The loan production office has helped the bank establish its presence in the southern part of its delineation. However, at this time, the loan production office is not allowed to accept deposits. Also, the bank extended its agreement with an affiliate bank which allows each bank to provide services and conduct bank transactions for customers of the other bank.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors maintains sufficient oversight of the bank's CRA activities. As discussed in Assessment Factor A, the board's members are very active in the community through their business and community groups. The board of directors consists of two inside and four outside members. Three of the six board members reside in the bank's delineated community.

As required by CRA, the board annually reviews and approves the bank's CRA Statement. The board approved the CRA Statement at its January 24, 1995, meeting. The bank's CRA Statement accurately describes the bank's credit products. However, the bank's delineation described in the CRA Statement and the map reflecting this delineation are inconsistent. The bank indicated that the map reflects the accurate delineation.

The bank has not expanded its CRA Statement, as recommended in the 1989 Interagency Policy Statement Regarding the Community Reinvestment Act, to include a discussion of the bank's current efforts to meet community credit needs, its record of meeting such needs, and a description of its ascertainment efforts.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The bank uses both formal and informal methods to market its credit products and services effectively throughout the delineated community. By word-of-mouth communications, the bank promotes awareness of its products and services. This type of informal marketing is extremely effective given the community's small size.

The bank does its formal marketing efforts through the local media. The bank placed general name-recognition and specific loan advertisements in the following weekly newspapers: the Lake Mills Graphic, Freeborn County Shopper, and Freeborn County Register. Also, the bank occasionally advertises in the Albert Lea Tribune, which is a daily newspaper.

In addition, the bank promotes local sporting events and teams on Albert Lea radio stations KATE-AM and KCPI-FM. These media outlets effectively cover the bank's entire delineated community.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The bank's lending levels reflect a general responsiveness to the community's credit needs. The bank offers a variety of consumer, real estate, commercial, and agricultural loans to help meet these credit needs. The CRA Statement correctly lists the types of credits offered by the bank.

According to the September 30, 1995, Report of Condition ("ROC"), the bank reported total assets of \$7.6 million, total deposits of \$6.9 million, and a 69% loan-to-deposit ratio. The June 30, 1995, ROC reflected a loan-to-deposit ratio of 69%.

The bank's September 30, 1995, ROC shows that the loan portfolio mix was approximately 33% commercial real estate, 25% consumer real estate, 17% consumer, 13% agricultural (2% of this total is agricultural real estate), and 12% commercial loans. The real estate portion of the loan portfolio is 60%. At the previous evaluation, the December 31, 1993, ROC indicated that the real estate portfolio was 49% of the bank's outstanding loans. The number of consumer and agricultural real estate loans increased since the last evaluation. This increase is primarily because of the opening of the bank's loan production office in Lake Mills. Commercial loan participations represent a smaller portion of the portfolio than the portion identified at the previous evaluation. The bank continues to originate the majority of its loans. The bank refers borrowers to other banks for credit products that it does not offer.

According to the June 30, 1995, Uniform Bank Performance Report ("UBPR"), the bank's loan-to-deposit ratio is 68%, which is in the 65th percentile and above the peer group average of 59%. Based on June 30, 1995, UBPR data, the bank's loan-to-deposit ratio is in line with the percentages of other area banks.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

The bank actively participates in the Federal Housing Administration ("FHA") Title I home improvement loan program. The bank's loan portfolio currently contains a sizeable number of outstanding FHA Title I home improvement loans.

The bank refers requests for FHA and Department of Veterans Affairs loans to an affiliate bank. The bank does not have any outstanding Small Business Administration ("SBA") loans. However, the bank is in the process of putting together an SBA loan package for one customer. In addition, the bank refers requests for student loans to neighboring financial institutions.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

The bank delineates its community as an area starting east of Twin Lakes, Minnesota, and following Interstate 35W south, crossing over the Iowa border until intersecting State Highway 105. The delineation then follows State Highway 105 west until it intersects County Road S28. It then proceeds south until it turns west on County Road A38 to U.S. Highway 69. The delineation proceeds north following U.S. Highway 69 until it meets the Iowa-Minnesota border. It then follows the border to a point approximately five miles from Emmons, where it turns north, intersecting the town of Mansfield, Minnesota. On the outskirts of Mansfield, the delineation heads east until intersecting Interstate 35W, just north of Twin Lakes.

The delineation has changed since the last evaluation. The bank previously identified its delineation as a 20-mile radius around Emmons. The bank changed this delineation based on an informal geographic analysis of its lending patterns. However, the delineation described in the bank's CRA Statement still reflects the 20-mile radius.

The bank's delineated community reasonably meets the purposes of CRA and does not exclude any low- and moderate-income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The bank's loans and denied applications appear reasonably distributed throughout its delineated community. The bank has not conducted a formal geographic distribution analysis of its approved and withdrawn credit applications or loan denials. The bank has no documentation of the informal analysis mentioned in the previous section. Based on a review of the board minutes since the last evaluation, the bank has not presented any formal geoanalysis of its lending patterns to the board. In our discussion with bank management members, they indicated that CRA is regularly discussed at each board meeting.

During the evaluation, examiners conducted a geoanalysis review of the bank's loan portfolio using a loan trial balance as of October 30, 1995. This review also included 1995 denials. The loan analysis indicated that more than 64% of the bank's loans are distributed within the delineated community. Approximately 57% of the credit denials are in the delineated community.

The bank is exempt from the requirements of the Home Mortgage Disclosure Act because it does not operate any offices in a metropolitan statistical area.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

The bank's hours and services are reasonable and meet the needs of its delineated community. The bank has only one office, which is open from 8:30 a.m. to 4:00 p.m. Monday through Thursday and 8:30 a.m. to 7:00 p.m. on Friday. The bank also operates a loan production office in Lake Mills that is open from 12:00 noon to 4:00 p.m. Monday through Thursday. A loan officer at the loan production office accepts loan applications and assists customers with competing applications. No deposits, loan payments, or new loans are processed at the loan production office.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

The evaluation did not reveal any bank practices intended to discourage applications for the types of credit listed in the bank's CRA Statement.

The bank's loan policy states that it will not discriminate against any applicant on the basis of race, color, religion, national origin, age, sex, marital status, or because the applicant's income is derived from public assistance.

Fair lending training at the bank is informal. The lending officers review and discuss publications obtained from different banking associations. In addition, the bank conducts an informal review of denied credit applications.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The evaluation did not reveal any credit practices inconsistent with the substantive provisions of the fair lending and housing laws and regulations. However, examiners found an isolated technical disclosure violation of the Fair Housing Act.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

The bank actively supports community development projects and programs in its delineated community. This is accomplished through lending activities, active community leadership, monetary contributions, and a willingness to purchase local bond issues.

The bank lends to most, if not all, the small businesses in Emmons. As discussed under Assessment Factor A, the bank's officers and directors are leaders of several community development organizations.

The bank bids on local municipal bond issues when they become available. There have been no new bond issues in Emmons or Lake Mills since the last evaluation. In late 1994, the bank provided short-term financing for the construction of a new building.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Emmons is located in southern Freeborn County. According to the 1990 census, the population is 437. The town is situated on the Minnesota-Iowa border. The south end of the city's main street is in Iowa. Emmons' economy is primarily based on agriculture, particularly crop (corn and soybean) and livestock operations. Bank management considers Emmons a bedroom community because residents primarily work in Albert Lea, Forest City, or Lake Mills. Emmons primarily consists of small retail businesses. However, there are some major employers in the bank's delineated community. For instance, three Lake Mills companies employ approximately 2,100 people. In addition, Forest City, located on the fringe of the bank's delineated community, is home to a manufacturing company.

The bank's size and capacity allow it to meet the credit needs of the local community effectively. The bank's community development activities, such as the loan production office in Lake Mills, also help the bank meet the growing credit needs of that part of its delineated market.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The bank is willing to participate in all viable development projects and otherwise meet the credit needs of its community. In addition, the bank has made contributions to various local churches and civic organizations.